



Mkhondo Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Mkhondo Local Municipality

(Registration number MP303)

Annual Financial Statements for the year ended 30 June 2018

General Information

Mayoral committee

Executive Mayor	Cllr. V.M. Motha
Speaker	Cllr. T.G. Nkosi
Chief Whip	Cllr. M. Yende
Member of Mayoral Committee - Finance and Technical	Cllr. Z.J. Mnisi
Member of Mayoral Committee- Community Services	Cllr. D. Twala
Member of Mayoral Committee- Planning, Corporate and Development	Cllr. T.E. Khumalo
Councillors	Cllr. C.B. Mkwanzani
	Cllr. D.M. Twala
	Cllr. B.J. Vilakazi
	Cllr. B.M. Khumalo
	Cllr. S.S. Mathebuka
	Cllr. T.P. Hlatshwayo
	Cllr. K. D. Masondo
	Cllr. R.P. Hlwatshayo
	Cllr. T.S. Nkosi
	Cllr. D.M. Ntshakala
	Cllr. J.P. Makhathini
	Cllr. T.S. Mafuyeka
	Cllr. M.Z. Ngwenya
	Cllr. T W Manana
	Cllr. M.D. Nthuli
	Cllr. B.C. Mkwanzani
	Cllr. T.B. Nkosi
	Cllr. F.C. Mthetwa
	Cllr. S.M. N. Bophela
	Cllr. T.S.M. Zulu
	Cllr. S.Z. Yende
	Cllr. D.L. Ngobeza
	Cllr. B.I. Nkosi
	Cllr. J.S. Brussow
	Cllr. S.J. Methula
	Cllr. S.C. Mahlobo
	Cllr. R.J.A. Wilson
	Cllr. P.E. Thabede
	Cllr. N.N. Zulu
	Cllr. S.A. Mwelase
	Cllr. T.P. Mncube
	Cllr. B.J. Mchunu

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General Information

Accounting Officer	Mr. M. Kunene
Chief Finance Officer (CFO)	Mr. B. Maseko
Registered office	Cnr Market & De Wet street Piet Retief 2380
Business address	Cnr Market & De Wet street Piet Retief 2380
Postal address	P.O. Box 23 Piet Retief 2380
Bankers	First National Bank A division of First Rand Limited

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The reports and statements set out below comprise the annual financial statements presented to the :

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 102, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Mr. M. Kunene
Municipal Manager

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 146,926,479 (2017: surplus R 202,813,908).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer has no interests in the contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr. M. Kunene

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

Audit committee

The Audit Committee members for the period under review are as follows:

Position	Name	Date of Appointment
Chairperson	Mr. Wiseman Khumalo	Resigned May 2018
Members:	Ms Celumusa Nyembe	1 May 2014
	Advocate Johannes C Weapond	1 December 2017
	Mr Lucky Mahalaba	1 December 2017

In terms of Section 166 of the Municipal Finance Management Act, (Act 56 of 2003), the municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not directors of the municipal entity onto the audit committee.

Internal audit

The municipality has a functional internal audit unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

The municipality mainly banks with First National Bank Limited a division of First Rand limited.

9. Auditors

Auditor General South Africa will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commencement text.

Mkhondo Local Municipality did not enter into any Public Private Partnership in the first half of 2017/18 financial year, nor does it have any existing PPP's.

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	13,178,777	7,585,606
Other financial assets	12	39,823	37,510
Receivables from exchange transactions	4	7,658,348	3,779,019
Receivables from non-exchange transactions	5	2,045,006	1,540,006
Consumer debtors	6	41,692,978	37,276,662
Cash and cash equivalents	7	3,443,923	1,499,578
		68,058,855	51,718,381
Non-Current Assets			
Biological assets that form part of an agricultural activity	8	30,052,809	59,684,288
Investment property	9	16,873,100	16,873,100
Property, plant and equipment	10	1,585,278,524	1,637,378,086
Intangible assets	11	246,227	246,227
Other financial assets	12	425,502	344,957
		1,632,876,162	1,714,526,658
Total Assets		1,700,935,017	1,766,245,039
Liabilities			
Current Liabilities			
Other financial liabilities	13	10,000,000	7,296,892
Operating lease liability	14	5,275	5,275
Payables from exchange transactions	15	249,847,612	201,987,772
VAT payable	16	22,818,643	6,376,670
Consumer deposits	17	3,551,068	3,510,222
Employee benefit obligation	18	1,619,055	1,485,909
Unspent conditional grants and receipts	19	10,552,492	4,126,488
		298,394,145	224,789,228
Non-Current Liabilities			
Employee benefit obligation	18	21,298,625	19,512,984
Provisions	20	21,821,072	15,595,181
		43,119,697	35,108,165
Total Liabilities		341,513,842	259,897,393
Net Assets		1,359,421,175	1,506,347,646
Accumulated surplus	21	1,359,421,168	1,506,347,646

* See Note 52 & 51

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	148,060,908	163,927,311
Agency services		-	12,155,307
Licences and permits		101,547	115,639
Rental income		1,104,039	751,153
Other income	25	32,081,629	24,664,149
Interest received	26	20,055,689	16,599,564
Gain on disposal of assets and liabilities		4,807,683	2,304,205
Inventory Gains		1,221,864	-
Total revenue from exchange transactions		207,433,359	220,517,328
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	40,937,282	40,351,300
Transfer revenue			
Government grants & subsidies	29	358,245,019	250,086,957
Fines, Penalties and Forfeits		2,428,175	3,017,209
Total revenue from non-exchange transactions		401,610,476	293,455,466
Total revenue	22	609,043,835	513,972,794
Expenditure			
Employee related costs	30	(162,576,364)	(148,774,440)
Remuneration of councillors	31	(13,952,594)	(12,038,936)
Depreciation and amortisation	32	(198,548,037)	(70,177,996)
Finance costs	33	(10,899,571)	(9,476,140)
Lease rentals on operating lease		(4,708,585)	(5,661,749)
Debt Impairment	34	(65,277,633)	(62,362,631)
Bulk purchases	35	(130,430,989)	(115,583,252)
Contracted services	36	(46,559,488)	(37,340,336)
Transfers and Subsidies	28	(5,473,471)	(6,675,704)
Fair value adjustments	38	(29,631,479)	(12,570,417)
Inventories losses/write-downs		-	(1,120,243)
General Expenses	37	(58,619,506)	(59,931,260)
Repairs and maintenance		(29,292,597)	(25,240,378)
Total expenditure		(755,970,314)	(566,953,482)
Deficit for the year from continuing operations		(146,926,479)	(52,980,688)
Reinstatement of prior year errors		-	255,794,596
(Deficit)/surplus for the year		(146,926,479)	202,813,908

* See Note 52 & 51

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	1,303,533,738	1,303,533,738
Changes in net assets		
Deficit for the year	202,813,908	202,813,908
Total changes	202,813,908	202,813,908
Opening balance as previously reported	1,249,741,775	1,249,741,775
Adjustments		
Prior year adjustments	256,605,872	256,605,872
Restated* Balance at 01 July 2017 as restated*	1,506,347,647	1,506,347,647
Changes in net assets		
Surplus for the year	(146,926,479)	(146,926,479)
Total changes	(146,926,479)	(146,926,479)
Balance at 30 June 2018	1,359,421,168	1,359,421,168

* See Note 52 & 51

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Property Taxation		26,864,032	40,351,304
Sale of goods and services		147,316,974	168,391,615
Grants		364,671,016	253,694,890
Interest income		1,142,759	442,467
		539,994,781	462,880,276
Payments			
Employee costs		(172,023,694)	(159,862,871)
Suppliers		(213,062,551)	(225,934,021)
Finance costs		(10,899,571)	(9,476,140)
		(395,985,816)	(395,273,032)
Net cash flows from operating activities	41	144,008,965	67,607,244
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(151,251,236)	(80,748,788)
Proceeds from sale of property, plant and equipment	10	6,566,359	4,664,240
Purchase of other intangible assets	11	-	(169,871)
Purchase of financial assets		(74,978)	(214,860)
Proceeds from sale of financial assets		(7,880)	-
Net cash flows from investing activities		(144,767,735)	(76,469,279)
Cash flows from financing activities			
Proceeds from other financial liabilities		-	6,553,768
Repayment of other financial liabilities		2,703,108	(218,170)
Net cash flows from financing activities		2,703,108	6,335,598
Net increase/(decrease) in cash and cash equivalents		1,944,338	(2,526,437)
Cash and cash equivalents at the beginning of the year		1,499,578	4,026,015
Cash and cash equivalents at the end of the year	7	3,443,916	1,499,578

* See Note 52 & 51

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	149,662,723	5,849,147	155,511,870	148,060,908	(7,450,962)	Ref 1
Licences and permits	52,330	-	52,330	101,547	49,217	
Rental income	3,839,691	(2,373,227)	1,466,464	1,104,039	(362,425)	Ref 2
Other income - (rollup)	28,697,166	(829,646)	27,867,520	32,081,629	4,214,109	Ref 3
Interest received - investment	11,330,000	6,649,584	17,979,584	20,055,689	2,076,105	Ref 4
Total revenue from exchange transactions	193,581,910	9,295,858	202,877,768	201,403,812	(1,473,956)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	41,451,955	2,133,784	43,585,739	40,937,282	(2,648,457)	Ref 5
Transfer revenue						
Government grants & subsidies	319,161,000	349,996	319,510,996	358,245,019	38,734,023	Ref 6
Public contributions and donations	2,500,000	10,100,462	12,600,462	-	(12,600,462)	Ref 7
Fines, Penalties and Forfeits	408,491	1,195,745	1,604,236	2,428,175	823,939	
Transfers and Subsidies- Capital (In-kind-all)	44,769,000	(2,675,000)	42,094,000	-	(42,094,000)	
Total revenue from non-exchange transactions	408,290,446	11,104,987	419,395,433	401,610,476	(17,784,957)	
Total revenue	601,872,356	20,400,845	622,273,201	603,014,288	(19,258,913)	
Expenditure						
Personnel	(155,527,852)	(899,930)	(156,427,782)	(162,576,364)	(6,148,582)	Ref 8
Remuneration of councillors	(13,744,516)	(1,160,020)	(14,904,536)	(13,952,594)	951,942	Ref 9
Depreciation and amortisation	(78,651,486)	6,951,486	(71,700,000)	(198,548,037)	(126,848,037)	
Finance costs	(100,000)	-	(100,000)	(10,899,571)	(10,799,571)	Ref 10
Lease rentals on operating lease	-	-	-	(4,708,585)	(4,708,585)	Ref 11
Debt Impairment	(48,131,674)	(5,568,326)	(53,700,000)	(65,277,633)	(11,577,633)	Ref 12
Repairs and maintenance	(22,004,016)	3,396,926	(18,607,090)	(29,292,597)	(10,685,507)	Ref 13
Bulk purchases	(113,606,154)	-	(113,606,154)	(130,430,989)	(16,824,835)	Ref 14
Contracted Services	(37,907,835)	(928,000)	(38,835,835)	(46,559,488)	(7,723,653)	Ref 15
Transfers and Subsidies	(17,876,599)	6,999,992	(10,876,607)	(5,473,471)	5,403,136	Ref 16
General Expenses	(63,289,410)	1,689,555	(61,599,855)	(58,619,506)	2,980,349	Ref 17
Total expenditure	(550,839,542)	10,481,683	(540,357,859)	(726,338,835)	(185,980,976)	
Operating deficit	51,032,814	30,882,528	81,915,342	(123,324,547)	(205,239,889)	
Gain on disposal of assets and liabilities	-	-	-	4,807,683	4,807,683	
Fair value adjustments	-	-	-	(29,631,479)	(29,631,479)	
Inventories losses/write-downs	-	-	-	1,221,864	1,221,864	
	-	-	-	(23,601,932)	(23,601,932)	
Deficit before taxation	51,032,814	30,882,528	81,915,342	(146,926,479)	(228,841,821)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	51,032,814	30,882,528	81,915,342	(146,926,479)	(228,841,821)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	9,350,630	-	9,350,630	13,178,777	3,828,147	Ref 18
Other financial assets	-	-	-	39,823	39,823	
Receivables from exchange transactions	14,253,837	-	14,253,837	7,658,348	(6,595,489)	Ref 19
Receivables from non-exchange transactions	-	-	-	2,045,006	2,045,006	Ref 20
VAT receivable	-	-	-	14,525,255	14,525,255	Ref 26
Consumer debtors	115,998,480	25,005,459	141,003,939	41,692,978	(99,310,961)	Ref 21
Cash and cash equivalents	8,399	137,258	145,657	385,565,891	385,420,234	
	139,611,346	25,142,717	164,754,063	464,706,078	299,952,015	
Non-Current Assets						
Biological assets that form part of an agricultural activity	72,264,809	(13,391,797)	58,873,012	30,052,809	(28,820,203)	Ref 22
Investment property	17,527,900	(654,800)	16,873,100	16,873,100	-	
Property, plant and equipment	1,492,882,983	(45,777,508)	1,447,105,475	1,585,278,524	138,173,049	Ref 23
Intangible assets	158,887	87,340	246,227	246,227	-	
Other financial assets	157,503	224,964	382,467	425,502	43,035	
	1,582,992,082	(59,511,801)	1,523,480,281	1,632,876,162	109,395,881	
Total Assets	1,722,603,428	(34,369,084)	1,688,234,344	2,097,582,240	409,347,896	
Liabilities						
Current Liabilities						
Other financial liabilities	400,000	(300,000)	100,000	10,000,000	9,900,000	Ref 24
Operating lease liability	-	-	-	5,275	5,275	
Payables from exchange transactions	97,639,624	15,912,724	113,552,348	249,847,612	136,295,264	Ref 25
VAT payable	-	-	-	37,343,898	37,343,898	Ref 26
Consumer deposits	4,131,433	(621,211)	3,510,222	3,551,068	40,846	
Employee benefit obligation	1,966,047	(480,138)	1,485,909	1,619,055	133,146	Ref 27
Unspent conditional grants and receipts	-	-	-	10,552,492	10,552,492	
Bank overdraft	-	-	-	382,121,968	382,121,968	
	104,137,104	14,511,375	118,648,479	695,041,368	576,392,889	
Non-Current Liabilities						
Employee benefit obligation	39,288,418	(4,180,253)	35,108,165	21,298,625	(13,809,540)	Ref 27
Provisions	-	-	-	21,821,072	21,821,072	Ref 28
	39,288,418	(4,180,253)	35,108,165	43,119,697	8,011,532	
Total Liabilities	143,425,522	10,331,122	153,756,644	738,161,065	584,404,421	
Net Assets	1,579,177,906	(44,700,206)	1,534,477,700	1,359,421,175	(175,056,525)	

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,579,177,906	(44,700,206)	1,534,477,700	1,359,421,175	(175,056,525)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Taxation	31,088,966	1,600,000	32,688,966	26,864,032	(5,824,934)	Ref 29
Sale of goods and services	112,247,042	4,386,860	116,633,902	147,316,974	30,683,072	Ref 30
Grants	319,161,000	350,000	319,511,000	364,671,016	45,160,016	Ref 31
Interest income	530,000	1,129,126	1,659,126	1,142,759	(516,367)	Ref 32
Other receipts	32,793,431	(1,802,882)	30,990,549	-	(30,990,549)	
	495,820,439	5,663,104	501,483,543	539,994,781	38,511,238	

Payments

Employee costs	(169,272,368)	(2,059,950)	(171,332,318)	(172,023,694)	(691,376)	Ref 33
Suppliers	(224,030,632)	9,408,474	(214,622,158)	(213,062,551)	1,559,607	Ref 34
Finance costs	(100,000)	-	(100,000)	(10,899,571)	(10,799,571)	Ref 35
	(393,403,000)	7,348,524	(386,054,476)	(395,985,816)	(9,931,340)	

Net cash flows from operating activities	102,417,439	13,011,628	115,429,067	144,008,965	28,579,898	
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Cash flows from investing activities

Purchase of property, plant and equipment	(125,604,250)	(10,095,332)	(135,699,582)	(151,251,236)	(15,551,654)	Ref 36
Proceeds from sale of property, plant and equipment	44,769,000	(2,675,000)	42,094,000	6,566,359	(35,527,641)	Ref 37
Purchase of financial assets	-	-	-	(82,858)	(82,858)	

Net cash flows from investing activities	(80,835,250)	(12,770,332)	(93,605,582)	(144,767,735)	(51,162,153)	
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Cash flows from financing activities

Repayment of other financial liabilities	(385,700)	(297,083)	(682,783)	2,703,108	3,385,891	
Net increase/(decrease) in cash and cash equivalents	21,196,489	(55,787)	21,140,702	1,944,338	(19,196,364)	
Cash and cash equivalents at the beginning of the year	1,689,000	193,045	1,882,045	1,499,578	(382,467)	
Cash and cash equivalents at the end of the year	22,885,489	137,258	23,022,747	3,443,916	(19,578,831)	

Statement of Comparison of Budget and Actual Amounts Variances

Statement of Financial Performance

- Ref 1 Service charges** – Revenue is 4% below budget and the variance is deemed immaterial.
- Ref 2 Rental income** – The income is 24% below budget, this is because of non-billing of customers renting Municipal properties.
- Ref 3 Other income** – Other income is 16% over budget this is because of more sales generated from timber than budget for.
- Ref 4 Interest received** – This is 12% above budget, as a result of consumer debtors who are not paying their accounts of time.
- Ref 5 Property rates** – The variance is 6% below budget and this is considered immaterial.

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Ref 6 Government Grants and Subsidies	– The variance is 3% above budget and is considered immaterial.					
Ref 7 Fines and Penalties	– The variance is 50% above budget, this is attributed to more traffic fines issued.					
Ref 8 Employee Salaries	– It is 4% above budget, variance is considered immaterial.					
Ref 9 Remuneration of Councillors	– Is 6% below budget and is considered immaterial.					
Ref 10 Finance Costs	– The variance is 133% above budget this is due interest costs to suppliers.					
Ref 11 Lease rentals	– The variance is 100% this was not budgeted for.					
Ref 12 Debt impairment	– The variance is 22% above budget this is due to non-performance of debtors.					
Ref 13 Repairs and maintenance	– The variance is 60% above budget, this is because of ageing machinery and equipment.					
Ref 14 Bulk Purchases	– The variance is 12% above budget, this is due to increase usage of electricity by consumers.					
Ref 15 Contracted Services	– The variance is 20% above budget, this is due to expenditure not budget for.					
Ref 16 Transfers and subsidies	– The variance is 50% below budget, this is due to less consumers registering for services than budgeted for.					
Ref 17 General expenses	– The variance is 4% below budget and is considered immaterial.					
Ref 18 Inventories	– The variance is 8% above budget and is considered immaterial.					
Ref 19 Receivables from exchange transactions	– The variance is 78% below budgeted, the line item was over budget for.					
Ref 20 Receivables from non - exchange transactions	– The variance is 100% this was not budget for.					
Ref 21 Consumer debtors	– The variance is 78% below budget, this is due to huge provisions for debtor's impairments.					

Statement of Financial position

Ref 22 Biological assets	– The variance is 39% below budget this is as a results of harvesting which took place during the year.
Ref 23 Property Plant and Equipment	– The variance is 4% above budget which is considered Immaterial.
Ref 24 Other financial liabilities	– The variance is 95% above budget, this line item was under budget for.
Ref 25 Payables form exchange transactions	– The variance is 116% above budget, this is due to financial constraints.
Ref 26 VAT payables	– The variance is 100% and this was not budget for.
Ref 27 Employee benefit obligation	– The variance is 39% below budget, it was an issue over budgeting.
Ref 28 Provisions	– The variance is 100% this was not budgeted for.

Cash Flow Statement

Ref 29 Taxation	– The variance is 17% below budget, non-performance of consumer debtors.
Ref 30 Sale of goods and services	– The variance is 41% above budget, this could have been under budgeted.
Ref 31 Grants and subsidies	– The variance is 5% above budget and the variance is considered immaterial.
Ref 32 Interest income	– The variance is 31% below budget, this was because of reduction investments made during the year.
Ref 33 Employee costs	– The variance is 1% below budget and is considered immaterial.
Ref 34 Suppliers	– The variance is 6% above budget which is considered immaterial.
Ref 35 Finance costs	– The variance is 133% above budget this is due to interest levied by suppliers.
Ref 36 Purchase of property plant and equipment	– The variance is 8% above budget and is considered immaterial.
Ref 37 Proceeds from property plant and equipment	– The variance is 95% below budget.

Additional text

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Offsetting

1.4 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Biological assets that form part of an agricultural activity (continued)

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Trees in a plantation forest	indefinite

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	2-50 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 - 10 years
Office equipment	Straight line	2 - 15 years
Transport assets	Straight line	3-15 years
Electricity equipment	Straight line	30 - 45 years
Electricity cables	Straight line	50 years
Electricity poles	Straight line	30 years
Roads	Straight line	10 - 50 years
Road furniture	Straight line	7 - 50 yers
Street lights	Straight line	25 years
Sewer equipment	Straight line	10 - 50 years
Storm waters	Straight line	20 - 50 years
Water equipment	Straight line	8- 75 years
Infrastructure assets	Straight line	5 years
Work in progress	Straight line	not depreciated
Investment property	Straight line	50 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Mkhondo Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other Financial assets	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Fixed deposit	Financial asset measured at fair value
Listed equity	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Financial Liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

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1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

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1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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Accounting Policies

1.13 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Mkhondo Local Municipality

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Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

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Accounting Policies

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

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Accounting Policies

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

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Accounting Policies

1.23 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2019	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 107: Mergers	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Not expected to impact results but may result in additional disclosure
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

3. Inventories

Consumable stores	9,777,429	7,228,342
Water	357,264	357,264
Land	3,044,084	-
	13,178,777	7,585,606

Carrying value of inventories carried at fair value less costs to sell	13,178,777	7,585,606
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4. Receivables from exchange transactions

Deposits	93,298	93,298
Sundry Debtors	7,565,050	3,685,721
	7,658,348	3,779,019

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties with external credit rating (Moody's)

Baa3	7,658,348	3,779,019
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Fair value of trade and other receivables

Trade and other receivables	7,658,348	3,779,018
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4. Receivables from exchange transactions (continued)		
Trade and other receivables past due but not impaired		
Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 7,658,348 (2017: R 3,779,018) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	4,632,775	-
3 months past due	3,025,573	3,779,018
5. Receivables from non-exchange transactions		
Fines	2,045,006	1,540,006
Receivables from non-exchange transactions impaired		
As of 30 June 2018, other receivables from non-exchange transactions of R 12,302,420 (2017: R 11,298,834) were impaired and provided for.		
The amount of the provision was R 1,003,586 as of 30 June 2018 (2017: R 2,084,743).		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(11,298,834)	(9,214,092)
Provision for impairment	(1,003,586)	(2,084,742)
	(12,302,420)	(11,298,834)

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6. Consumer debtors		
Gross balances		
Rates	71,828,558	57,755,308
Electricity	85,956,478	61,906,109
Water	66,419,517	51,187,283
Sewerage	34,080,712	28,259,552
Refuse	55,604,577	45,836,877
Other	20,520,156	20,774,506
	334,409,998	265,719,635
Less: Allowance for impairment		
Rates	(62,873,852)	(48,754,329)
Electricity	(75,240,477)	(47,856,130)
Water	(58,139,144)	(45,542,351)
Sewerage	(29,831,946)	(24,726,556)
Refuse	(48,672,478)	(42,374,438)
Other	(17,959,123)	(19,189,169)
	(292,717,020)	(228,442,973)
Net balance		
Rates	8,954,706	9,000,979
Electricity	10,716,001	14,049,979
Water	8,280,373	5,644,932
Sewerage	4,248,766	3,532,996
Refuse	6,932,099	3,462,439
Other	2,561,033	1,585,337
	41,692,978	37,276,662
Included in above is receivables from exchange transactions		
Electricity	16,737,036	14,049,979
Water	7,719,375	5,644,932
Sewerage	3,078,388	3,532,996
Refuse	5,822,896	3,462,440
Other	1,483,123	1,585,337
	34,840,818	28,275,684
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	9,456,829	9,000,979
Net balance	44,297,647	37,276,663
Rates		
Current (0 -30 days)	445,559	1,962,026
31 - 60 days	322,230	924,529
61 - 90 days	285,652	621,236
91 - 120 days	7,901,265	5,493,188
	8,954,706	9,000,979

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6. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	830,515	5,380,516
31 - 60 days	618,104	1,497,258
61 - 90 days	445,113	802,594
91 - 120 days	8,822,269	6,369,611
	10,716,001	14,049,979
Water		
Current (0 -30 days)	1,830,640	904,343
31 - 60 days	1,823,133	377,553
61 - 90 days	1,410,883	268,874
91 - 120 days	3,215,717	4,094,162
	8,280,373	5,644,932
Sewerage		
Current (0 -30 days)	812,073	483,333
31 - 60 days	688,659	239,588
61 - 90 days	594,280	166,543
91 - 120 days	2,153,754	2,643,532
	4,248,766	3,532,996
Refuse		
Current (0 -30 days)	1,005,414	266,673
31 - 60 days	918,363	171,177
61 - 90 days	877,645	138,820
91 - 120 days	4,130,677	2,885,769
	6,932,099	3,462,439
Other (specify)		
Current (0 -30 days)	90,639	(575,621)
31 - 60 days	82,394	(3,689)
61 - 90 days	89,516	80,524
91 - 120 days	2,298,484	2,084,123
	2,561,033	1,585,337
Reconciliation of allowance for impairment		
Balance at beginning of the year	(228,442,973)	(168,404,721)
Contributions to allowance	(64,274,047)	(60,038,252)
	(292,717,020)	(228,442,973)

Fair value of consumer debtors

Consumer debtors	41,692,978	37,276,663
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Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 292,717,019 (2017: R 228,476,422) were impaired and provided for.

The amount of the provision was R 64,274,047 as of 30 June 2018 (2017: R 60,071,701).

The ageing of these loans is as follows:

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6. Consumer debtors (continued)

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	41,692,979	37,276,663
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7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,342	8,541
Bank balances	385,217,305	240,852
Short-term deposits	342,244	1,250,185
Bank overdraft	(382,121,968)	-
	3,443,923	1,499,578
Current assets	385,565,891	1,499,578
Current liabilities	(382,121,968)	-
	3,443,923	1,499,578

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

Baa3	2,740,008	5,957,159
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The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank Cheque account - 620131263656	2,397,763	4,706,974	3,369,729	1,160,436	240,852	3,355,899
First National Bank Fixed Deposit account 62254274732	12,223	250,185	32,891	256,752	250,185	32,891
First National Bank call account 62016967351	26,048	1,000,000	428,685	221,511	1,000,000	428,685
FNB Call account EPWP 62706895911	72,387	-	-	1,859,765	-	-
FNB Call account WSIG 62706897214	47,553	-	-	848,128	-	-
FNB Call account FMG 62706892280	26,923	-	-	182,032	-	-
FNB Call account INEP 62706893890	10,116	-	-	2,219,100	-	-
FNB Call account EQS 62706889617	94,567	-	-	8,022,360	-	-
FNB Call account MIG 62706890911	52,428	-	-	148,702	-	-
Total	2,740,008	5,957,159	3,831,305	14,918,786	1,491,037	3,817,475

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8. Biological assets that form part of an agricultural activity

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees in a plantation forest	30,052,809	-	30,052,809	59,684,288	-	59,684,288

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	59,684,288	(29,631,479)	30,052,809

Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	72,264,809	(12,580,521)	59,684,288

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Figures in Rand	2018	2017
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8. Biological assets that form part of an agricultural activity (continued)

Non - Financial information

Quantities of each biological asset

Trees in a plantation forest	30,052,809	59,684,288
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Total population of plantation area:

- Wattle: 22% (582.1ha)

- Gum: 42% (1103.5ha)

- Pine: 36% (963.5ha)

Next fair valuation on the plantation will be due on 30 June 2019

Mature biological[Insert basis of making distinctions regarding consumables/bearer or mature/immature]

Mature biological assets

Trees in a plantation forest	30,052,809	59,684,288
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Pledged and restriction

Carrying value of biological assets pledged as security:

Trees standing	19,160,654	-
The Municipality secured a short term loan of R10,000,000 from TWK in June 2018. The Loan is secured over certain compartments of standing trees from the Municipality Forests and Plantations.		

Other information

Methods and assumptions used in determining fair value

Valuation of forested land requires knowledge of the location and current volume of timber resources. Forests are dynamic, biological systems, and estimates of growth for various management strategies were applied. *Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. A MAI (gum: 15 tons/ha/year, pine: 13 tons/ha/year, wattle: 10 tons/ha/year) was used in the evaluation.*

The standing timber value per hectare is determined by valuing the yield at rotation age and deducting from that the harvesting and delivery cost. The profitability of the crop is then determined by the Faust Mann Formula (Table 1-4) and incorporates all the costs. Timber prices used were provided by NCT, TWK, and Mondi. Harvesting and transport costs were supplied by local contractors in 2018. See appendix 2, 3 and 4 for details of standing timber value per specie.

The Municipality used an expert to calculate the fair value of biological assets as at 30 June 2018.

Financial Risk Strategy

The entity is exposed to financial risks arising from the changes in market prices of timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and therefore has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.

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9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	32,470,800	(15,597,700)	16,873,100	32,470,800	(15,597,700)	16,873,100

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	16,873,100	16,873,100

Reconciliation of investment property - 2017

	Opening balance	Disposals	Depreciation	Total
Investment property	17,527,900	(31,500)	(623,300)	16,873,100

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6,046,409	-	6,046,409	10,849,169	-	10,849,169
Buildings	62,891,864	(40,608,828)	22,283,036	62,891,864	(30,794,214)	32,097,650
Infrastructure	2,724,349,818	(1,569,215,317)	1,155,134,501	2,682,511,195	(1,384,635,567)	1,297,875,628
Community	137,092,171	(82,520,524)	54,571,647	137,092,171	(78,366,851)	58,725,320
Other property, plant and equipment	53,879,608	(41,491,685)	12,387,923	51,911,882	(39,940,340)	11,971,542
Work in progress	334,855,008	-	334,855,008	225,858,777	-	225,858,777
Total	3,319,114,878	(1,733,836,354)	1,585,278,524	3,171,115,058	(1,533,736,972)	1,637,378,086

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	10,849,169	-	(1,758,676)	(3,044,084)	-	6,046,409
Buildings	32,097,650	-	-	-	(9,814,614)	22,283,036
Infrastructure	1,297,875,628	29,141,393	-	12,697,231	(184,579,751)	1,155,134,501
Community	58,725,320	-	-	-	(4,153,673)	54,571,647
Other property, plant and equipment	11,971,542	416,381	-	-	-	12,387,923
Work in progress	225,858,777	121,693,462	-	(12,697,231)	-	334,855,008
	1,637,378,086	151,251,236	(1,758,676)	(3,044,084)	(198,548,038)	1,585,278,524

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Correction of error	Depreciation	Total
Land	35,083,859	-	(487,969)	(23,746,721)	-	10,849,169
Buildings	46,252,814	-	-	(12,978,608)	(1,176,556)	32,097,650
Infrastructure	1,016,581,261	-	(1,840,567)	346,879,773	(63,744,839)	1,297,875,628
Community	24,717,604	-	-	33,652,319	355,397	58,725,320
Other property, plant and equipment	11,293,536	5,584,171	-	-	(4,906,165)	11,971,542
Work in progress	238,706,327	75,164,617	-	(88,012,167)	-	225,858,777
	1,372,635,401	80,748,788	(2,328,536)	255,794,596	(69,472,163)	1,637,378,086

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Figures in Rand	2018	2017
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10. Property, plant and equipment (continued)

Pledged as security

There is no Property, Plant and Equipment which has been pledged as security.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	313,870,943	313,870,943
Additions/capital expenditure	125,289,992	125,289,992
	439,160,935	439,160,935

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	238,706,327	238,706,327
Additions/capital expenditure	75,164,616	75,164,616
	313,870,943	313,870,943

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	337,121	(90,894)	246,227	337,121	(90,894)	246,227

Reconciliation of intangible assets - 2018

	Opening balance	Total
Computer software, other	246,227	246,227

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	158,887	169,871	(82,531)	246,227

Pledged as security

There is no intangible assets pledged as security

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12. Other financial assets		
Designated at fair value		
Listed Shares - Old Mutual: 13093141	425,502	344,957
This is an Old Mutual Wealth wrapped investment. The account was opened on 25 June 2002 with an initial investment amount of R3 539 868.		
At amortised cost		
ABSA 2056165426	31,472	29,644
This is a fixed term deposit with interest capitalised every three months. The account was opened on 9 March 2004.		
ABSA 5008322939	8,351	7,866
This is a fixed term investment account with interest capitalised on a three month period. The account was opened on 24 September 1993.		
	39,823	37,510
Total other financial assets	465,325	382,467
Non-current assets		
Designated at held for trading and available for sale	425,502	344,957
Current assets		
At amortised cost	39,823	37,510
13. Other financial liabilities		
At amortised cost		
TWK Short term loan	10,000,000	6,553,768
This is a short term loan which was secured in June 2018 and repayable by July 2018. The loan is secured over certain compartments of the Municipality Forests and Plantations.		
DBSA Streets Ethanda	-	238,707
The loan bears interest at 14% per annum, interest and capital is repaid bi-annually. The loan was secured in 1 October 1995 and the initial maturity date is 30 September 2015. The loan was fully repaid during the year.		
DBSA Electricity Ext 7 & 9	-	504,417
The loan bears interest at 15% per annum, was secured on 1 October 1997 and matures on 30 September 2017. Interest and capital is repaid bi-annually.		
	10,000,000	7,296,892
Total other financial liabilities	10,000,000	7,296,892
Current liabilities		
At amortised cost	10,000,000	7,296,892
14. Operating lease asset (accrual)		
Current liabilities	(5,275)	(5,275)

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15. Payables from exchange transactions		
Trade payables	197,545,076	160,782,244
Accrued bonus	4,632,381	4,452,944
Deposits received	35,066	-
Debtors with negative balances	2,590,109	3,348,055
Sundry creditors	28,505,400	19,271,987
Accrued leave pay	16,539,580	14,132,542
	249,847,612	201,987,772
16. VAT payable		
Tax refunds/(payables)	37,343,898	6,376,670
VAT	(14,525,255)	-
	22,818,643	6,376,670
17. Consumer deposits		
Electricity, Water and Zero consumption	3,551,068	3,510,222

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18. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

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18. Employee benefit obligations (continued)

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any offbalance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

Sensitivity Analysis

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Table 7.1 summarises the results of the sensitivity analysis.

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service members	Continuation members	Total	change
Central assumptions		2.930	9.100	12.031	
Health care inflation	+1%	3.366	9.239	12.605	5%
Health care inflation	-1%	2.473	8.881	11.354	-6%
Discount rate	+1%	2.450	8.439	10.890	-9%
Discount rate	-1%	3.532	9.860	13.392	11%
Post-retirement mortality	-1 yr	3.029	9.422	12.450	3%
Average retirement age	-1 yr	3.221	9.100	12.321	2%
Continuation of membership at retirement	-10%	2.012	9.100	11.113	-8%

Note to Table 7.1: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 5% higher than that shown.

Table 7.2 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2018.

Table 7.2: Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2018

Assumption	Change	Current-Service costs	Interest Cost	Total	change
Central assumptions		104,500	1,030,000	1,134,500	
Health care inflation	+1%	119,400	1,078,800	1,198,200	6%
Health care inflation	-1%	88,400	971,500	1,059,900	-7%

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18. Employee benefit obligations (continued)					
Discount rate	+1%	87,000	1,025,300	1,112,300	-2%
Discount rate	-1%	126,700	1,030,800	1,157,500	2%
Post-retirement mortality	-1 yr	108,100	1,067,000	1,175,100	4%
Average retirement age	-1 yr	114,800	1,054,700	1,169,500	3%
Continuation of membership at retirement	-10%	71,600	949,800	1,021,400	-10%

These figures were derived at the last valuation and were presented in that report.

Table 7.3 summarises the results of this analysis on the Current-Service and Interest Costs for the year ending 30 June 2019.

Table 7.3: Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2019.

Assumption	Change	Current-Service costs	Interest Cost	Total	change
Central assumptions		107,200	1,069,300	1,176,500	
Health care inflation	+1%	123,100	1,122,000	1,245,100	6%
Health care inflation	-1%	90,400	1,007,100	1,097,500	-7%
Discount rate	+1%	90,300	1,068,700	1,159,000	-1%
Discount rate	-1%	128,200	1,065,100	1,193,300	1%
Post-retirement mortality	-1 yr	110,800	1,107,900	1,218,700	4%
Average retirement age	-1 yr	117,900	1,096,000	1,213,900	3%
Continuation of membership at retirement	-10%	73,700	984,600	1,058,300	-10%

Long service awards

Scope of Valuation

The effective date of the valuation is 30 June 2018 (the "Valuation Date"). The valuation considers all employees eligible for LSA. The LSA liability is not a funded arrangement, i.e. no separate assets have been set aside to meet this liability. The previous actuarial valuation of the Municipality's LSA liability was undertaken as at 30 June 2017.

Valuation method

Introduction

SAICA revised the Statement of Generally Accepted Accounting Practice, then known as AC 116, in 2001. This statement was based on IAS 19 as published by the International Accounting Standards Committee. One of the effects of this revision was to require the inclusion of long-term employee benefits other than those for retirement.

GRAP 25, derived from IAS 19, has been approved by the ASB and the Minister of Finance, and is effective for financial periods commencing on or after 1 April 2013. It applies to institutions falling within the ambit of the Public Finance Management Act.

There remains room for interpretation of GRAP 25. As a result, it is important to understand the various components of what might make up the liability that will in turn determine what the employer should reflect in its Financial Statements. The following two sections describe the potential make-up of the liability.

Liabilities of the Employer

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18. Employee benefit obligations (continued)

Total long service award liability: This is the present value of the total LSA expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected LSA for current employees.

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old employee with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the employee "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, for the 20 and 25 year LSA are then 15/20 and 15/25 of the respective total liabilities. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the employee over the next 12 months. In this example, these amount to 1/20 and 1/25 of the respective total liabilities.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its LSA liabilities.

Accounting Requirements

The Projected Unit Credit Method has been used to value the liabilities.

Key Assumptions

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year.

Key Financial Assumptions Table

Assumption	Value per annum
Discount rate	8.69%
General earnings inflation rate (long-term)	6.26%
Net effective discount rate	6.26%

The earnings used in the valuation include an assumed increase on 1 July 2018 of 7.00%. The next earnings increase was assumed to take place on 1 July 2019.

Key Demographic Assumptions

The table below summarises the key demographic assumptions used.

Assumption	Value	Value	Value
Average retirement age	65	65	65
Mortality during employment	SA 85-90	SA 85-90	SA 85-90
Withdrawal from service (sample annual rates)	Age	Female	Male
	20	24%	16%
	30	18%	12%
	40	10%	8%

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18. Employee benefit obligations (continued)			
	50	4%	4%
	55	2%	2%

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18. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-Post Employment Medical Benefit-wholly unfunded	(12,030,705)	(11,624,307)
Present value of the defined benefit obligation-Long Service Awards- wholly unfunded	(10,886,975)	(9,374,586)
	(22,917,680)	(20,998,893)
Non-current liabilities	(21,298,625)	(19,512,984)
Current liabilities	(1,619,055)	(1,485,909)
	(22,917,680)	(20,998,893)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	20,998,893	22,035,844
Net expense recognised in the statement of financial performance	1,918,787	(1,036,951)
	22,917,680	20,998,893
Net expense recognised in the statement of financial performance		
Current service cost	1,132,502	1,219,699
Interest cost	1,809,542	1,877,703
Actuarial (gains) losses	462,652	(2,168,306)
Settlement	(1,485,909)	(1,966,047)
	1,918,787	(1,036,951)

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19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Local government sector education and training authority	333,732	126,488
Integrated National Electrification Programme	10,000,000	4,000,000
Water Services Infrastructure Grant	218,760	-
	10,552,492	4,126,488

Movement during the year

Balance at the beginning of the year	4,126,488	518,556
Additions during the year	153,078,531	85,903,985
Income recognition during the year	(146,652,527)	(82,296,053)
	10,552,492	4,126,488

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

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20. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation provision	15,595,181	6,225,891	21,821,072

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Total
Environmental rehabilitation provision	16,959,814	(1,364,633)	15,595,181

Environmental rehabilitation provision

FINANCIAL ASSUMPTIONS USED

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

Consumer Price Index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last three months amounted to 4.4805%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used.

For this landfill the rate associated with the maximum period of 10 years was used, i.e. 3% above CPI.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

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21. Accumulated surplus

22. Revenue

Service charges	148,060,908	163,927,311
Agency services	-	12,155,307
Licences and permits	101,547	115,639
Rental income	1,104,039	751,153
Other income	32,081,629	24,664,149
Interest received	20,055,689	16,599,564
Property rates	40,937,282	40,351,300
Government grants & subsidies	358,245,019	250,086,957
Fines, Penalties and Forfeits	2,428,175	3,017,209
	603,014,288	511,668,589

The amount included in revenue arising from exchanges of goods or services are as follows:

Agency services	-	12,155,307
Interest received - investment	20,055,689	16,599,564
Licences and permits	101,547	115,639
Other income	32,081,629	24,664,149
Rental income	1,104,039	751,153
Service charges	148,060,908	163,927,311
	201,403,812	218,213,123

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	40,937,282	40,351,300
Transfer revenue		
Government grants & subsidies	358,245,019	250,086,957
Fines, Penalties and Forfeits	2,428,175	3,017,209
	401,610,476	293,455,466

23. Service charges

Sale of electricity	107,886,762	121,224,201
Sale of water	19,988,998	23,560,984
Sewerage and sanitation charges	9,440,145	9,152,886
Refuse removal	10,745,003	9,989,240
	148,060,908	163,927,311

24. Other revenue

Rental income	1,104,039	751,153
Other income - (rollup)	32,081,629	24,664,149
	33,185,668	25,415,302

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25. Other income		
Administration costs	19,486	13,697
Advertising	23,182	67,679
Building and clearance certificates	18,835	35,639
Cemetery fees	182,121	-
Commission income	179,504	200,152
Escourting fees	1,006,760	1,233,440
Fund raising	12,401	1,651
Other revenue	1,050,606	531,986
Photo copies	438,203	288,608
Timber sales	29,150,531	22,291,297
	32,081,629	24,664,149

26. Investment revenue

Interest revenue

Bank	1,142,759	442,467
Interest charged on trade and other receivables	18,912,930	16,157,097
	20,055,689	16,599,564

27. Property rates

Rates received

Residential	16,164,114	18,965,037
Commercial	9,346,534	11,302,903
State	3,965,370	7,813,050
Small holdings and farms	13,282,425	8,137,949
Less: Income forgone	(1,821,161)	(5,867,639)
	40,937,282	40,351,300

Valuations

Residential	2,607,225,900	2,581,461,403
Commercial	954,812,830	944,277,930
State	497,088,760	428,729,760
Municipal	306,911,400	346,549,400
Small holdings and farms	3,889,505,680	3,910,291,256
Vacant Land	193,729,616	200,824,716
Other	6,844,000	6,925,000
	8,456,118,186	8,419,059,465

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

28. Transfers and subsidies

Other subsidies

Equitable share	5,473,471	6,675,704
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Figures in Rand	2018	2017
29. Government grants and subsidies		
Operating grants		
Equitable share	186,451,100	166,348,627
Finance management grant	2,145,000	1,810,000
Local government sector education and training authority	161,287	994,977
Expanded public works programme incentive grant	3,350,000	2,452,000
	192,107,387	171,605,604
Capital grants		
Municipal Infrastructure Grant	102,215,000	74,666,000
GSDM Grant	29,141,392	3,815,353
Water Services Infrastructure Grant	34,781,240	-
	166,137,632	78,481,353
	358,245,019	250,086,957

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal infrastructure grant (MIG)

Current-year receipts	102,215,000	74,666,000
Conditions met - transferred to revenue	(102,215,000)	(74,666,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which are yet to be completed. The conditions of the projects are directly in-line with the DORA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish. An amount of R102 215 000 (2017- R74 666 000) of the Municipal Infrastructure Grant was expended on Infrastructure capital projects.

Financial management grant (FMG)

Current-year receipts	2,145,000	1,810,000
Conditions met - transferred to revenue	(2,145,000)	(1,810,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. An amount of R2 145 000 (2016 - R1 810 000) was used during the period.

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Figures in Rand	2018	2017
29. Government grants and subsidies (continued)		
Local government sector education and training authority		
Balance unspent at beginning of year	126,488	518,556
Current-year receipts	368,531	602,909
Conditions met - transferred to revenue	(161,287)	(994,977)
	333,732	126,488

Conditions still to be met - remain liabilities (see note 19).

The Local Government, Water and Related Services SETA was established in terms of the Skills Development Act (1998). In terms of the provisions of the Act, the SETA was first established in 2000 and was recertified by the Minister of Labour in March 2005, with a reduced scope of coverage that excluded the Water Sector. It was at this stage renamed the The Local Government Sector Education & Training Authority (LGSETA). In 2011 responsibility for all SETAs was moved from the Department of Labour to the newly established Department of Higher Education and Training. The LGSETA was recertified by the Minister for the National Skills Development Strategy III period (2011-2016).

The LGSETA has aligned its contributions to the implementation of National Skills Development Strategy III (NSDS III) primarily to support the achievement of OUTCOME 9 of the Cabinet Programme of Action, which aims to improve the effectiveness and efficiency of skills development system within the local government sector. The strategic outcome of the SETA will therefore produce a skilled and capable local government workforce. Provide explanations of conditions still to be met and other relevant information.

An amount of R161 287 (2017 - R994 977) was expended during the period.

Integrated national electrification programme

Balance unspent at beginning of year	4,000,000	-
Current-year receipts	10,000,000	4,000,000
Repaid back to National reasury	(4,000,000)	-
	10,000,000	4,000,000

Conditions still to be met - remain liabilities (see note 19).

The Department of Energy, Eskom and the South African Local Government Association briefed the committee on where the Intergrated Electrification Programme stood currently, the challenges it faced as well as the challenges specific to municipalities.

The unspent grant as at 30 June 2017 of R4 000 000 was repaid to National Treasury through disbusrments withheld.

Expanded public works programme incentive grant

Current-year receipts	3,350,000	2,452,000
Conditions met - transferred to revenue	(3,350,000)	(2,452,000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

An amount of R3 350 000 (R2 452 000) was used during the period.

Water Services Infrastructure Grant

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Figures in Rand	2018	2017
29. Government grants and subsidies (continued)		
Current-year receipts	35,000,000	-
Conditions met - transferred to revenue	(34,781,240)	-
	218,760	-

Conditions still to be met - remain liabilities (see note 19).

The Water Services Infrastructure Grant is used for the construction of the Sewer Package plant in Haartebeesfontein and Rustplaas. During the period an amount of R34 781 240 was used on the project.

GSDM Grant

Current-year receipts	-	3,815,353
Conditions met - transferred to revenue	-	(3,815,353)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The amount received during the year was reimbursement of expenses incurred in certain of the Municipality projects.

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30. Employee related costs		
Basic	99,865,376	90,822,297
Bonus	8,292,643	8,761,068
Housing benefits and allowances	1,202,425	2,131,758
Leave pay provision charge	3,364,824	-
Medical aid contributions	6,176,444	6,482,232
Overtime payments	10,794,578	11,128,962
Pension fund contributions	19,388,837	17,023,155
SDL	1,246,042	-
Shift allowance	-	654,366
Standby	7,565,966	7,023,169
Subsistence and other allowances	3,885,885	3,909,535
Unemployment insurance fund contributions	793,344	837,330
WCA	-	568
	162,576,364	148,774,440

Listed below are remuneration of key employees. Their remuneration is included in employee costs disclosed above.

Remuneration of municipal manager

Annual Remuneration	823,942	66,592
Car, Travel and other allowances	220,010	13,600
Contributions to UIF, Medical and Pension Funds	114,333	-
	1,158,285	80,192

Mr M. Kunene who is the Municipal Manager served for the whole year to 30 June 2018

Remuneration of Chief finance officer

Annual Remuneration	422,299	-
Car, Travel and other allowances	279,148	-
Contributions to UIF, Medical and Pension Funds	107,314	-
	808,761	-

Mr B. Maseko who is the Chief Financial Officer served for 11 months from August 2017 to June 2018.

General Manager Planning and Development

Annual Remuneration	348,427	984,204
Car, Travel and other allowances	59,712	287,731
Contributions to UIF, Medical and Pension Funds	40,997	187,877
Leave gratuity	239,957	-
	689,093	1,459,812

Mr A. Mahangu served for three months to September 2017.

Remuneration of Planning and Development

Annual Remuneration	94,786	-
Car, Travel and other allowances	33,200	-
Contributions to UIF, Medical and Pension Funds	5,364	-
	133,350	-

Mr L Motlounq who is the new GM Planning and Development served for two months from May 2018 to June 2018.t

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Figures in Rand	2018	2017
30. Employee related costs (continued)		
General Manager Corporate Services)		
Annual Remuneration	405,085	-
Car, Travel and other allowances	60,818	-
Contributions to UIF, Medical and Pension Funds	74,833	-
	540,736	-

Mr M Thabede served for nine months from December 2017 to 30 June 2018.

General manager - Corporate services

Annual Remuneration	509,266	720,720
Car, Travel and other allowances	110,564	186,657
Contributions to UIF, Medical and Pension Funds	91,879	174,455
Leave Gratuity	183,187	-
	894,896	1,081,832

Mr M. Mkhonza served for seven months to January 31 2018.

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30. Employee related costs (continued)

General manager - Technical services

Annual Remuneration	162,342	669,368
Car, Travel and other allowances	53,672	213,605
Contributions to UIF, Medical and Pension Funds	29,247	114,792
Leave gratuity	64,192	-
	309,453	997,765

The GM Technical Services Ms L Dlodla three months to September 2017.

General manager - Community Services

Annual Remuneration	713,419	760,167
Car, Travel and other allowances	122,295	214,916
Contributions to UIF, Medical and Pension Funds	142,102	186,317
Leave Gratuity	196,670	-
	1,174,486	1,161,400

Mr A Nkonyane served for ten months to April 2018.

General Manager - Community Services

Annual Remuneration	94,281	-
Car Allowance	28,744	-
Contributions to UIF, Medical and Pension Funds	12,399	-
	135,424	-

Mr V Khumalo is the ne General Manager Community Services and he served for two months from May 2018 to June 30 2018.

31. Remuneration of councillors

Executive Major	859,069	802,560
Chief Whip	649,031	618,098
Speaker	690,502	565,601
Councillors salaries	11,064,869	9,177,199
Councillors pension contribution	689,123	875,478
	13,952,594	12,038,936

32. Depreciation and amortisation

Property, plant and equipment	198,548,037	69,472,164
Investment property	-	623,300
Intangible assets	-	82,532
	198,548,037	70,177,996

33. Finance costs

Trade and other payables	10,854,782	9,180,975
Current borrowings	44,789	295,165
	10,899,571	9,476,140

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34. Debt impairment		
Debt impairment	65,277,633	62,362,631
35. Bulk purchases		
Electricity	126,323,644	113,382,659
Water	4,107,345	2,200,593
	130,430,989	115,583,252
36. Contracted services		
Specialist Services	-	44,346
Business and Financial Management	19,776,459	15,205,000
Legal and Litigation	2,892,949	2,288,618
Occupational and Health Safety	20,655	6,200
Professional Staff	846,916	2,142,979
Project Management	212,488	2,048,415
Research and advisory	27,900	316,260
Security services	20,214,534	14,994,597
Valuation Services	2,567,587	293,921
	46,559,488	37,340,336
37. General expenses		
Advertising	1,629,131	1,149,838
Auditors remuneration	3,955,239	3,203,612
Bank charges	775,061	915,150
Commission paid	327,954	185,826
Community development and training	270,920	946,539
Consulting and professional fees	2,226,605	3,640,945
Consumables	14,584,402	11,784,392
Discount allowed	42,830	-
Election expenses	-	11,319,861
Entertainment	-	21,875
Insurance	5,059,915	5,609,764
Printing and stationery	59,600	2,250
Protective clothing	3,318,142	3,505,102
Repairs and maintenance	29,292,597	25,240,378
Subscriptions and membership fees	2,301,093	1,178,619
Subsistence and travel	4,084,998	3,113,757
Subsistence and travel	17,291,284	10,307,033
Training	2,692,332	3,046,697
	87,912,103	85,171,638
38. Fair value adjustments		
Biological assets - (Fair value model)	(29,631,479)	(12,580,521)
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	10,104
	(29,631,479)	(12,570,417)
39. Auditors' remuneration		
Fees	3,955,239	3,203,612

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40. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Operating lease charges

Premises		
• Contractual amounts	899,005	447,502
Motor vehicles		
• Contractual amounts	-	1,060,394
Lease rentals on operating lease - Other		
• Contractual amounts	3,809,580	4,153,853
	4,708,585	5,661,749

Gain on sale of property, plant and equipment	4,807,683	2,304,205
Amortisation on intangible assets	-	82,532
Depreciation on property, plant and equipment	198,548,037	69,472,164
Depreciation on investment property	-	623,300
Employee costs	176,528,958	160,813,376

41. Cash generated from operations

Surplus/(deficit)	(146,926,479)	202,813,908
Adjustments for:		
Depreciation and amortisation	198,548,037	70,177,996
Sale of assets and liabilities	(4,807,683)	(2,304,205)
Prior year reinstatement	-	(255,794,596)
Fair value adjustments	29,631,479	12,570,417
Debt impairment	65,277,633	62,362,631
Movements in operating lease assets and accruals	-	(57,910)
Movements in retirement benefit assets and liabilities	1,918,787	950,504
Movements in provisions	6,225,891	(1,364,633)
Changes in working capital:		
Inventories	(2,549,085)	1,765,024
Receivables from exchange transactions	(3,879,329)	(1,221,832)
Consumer debtors	(69,693,949)	(71,313,790)
Other receivables from non-exchange transactions	(505,000)	(491,131)
Payables from exchange transactions	47,859,840	25,037,752
VAT	16,441,973	20,630,507
Unspent conditional grants and receipts	6,426,004	3,607,932
Consumer deposits	40,846	238,670
	144,008,965	67,607,244

42. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Other Financial assets	465,325	-	465,325
Trade and other receivables from exchange transactions	-	7,658,348	7,658,348
Other receivables from non-exchange transactions	-	2,045,006	2,045,006
Consumer debtors	-	41,692,978	41,692,978
	465,325	51,396,332	51,861,657

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42. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Other financial liabilities	10,000,000	10,000,000
Trade and other payables from exchange transactions	249,852,887	249,852,887
VAT Payable	22,818,643	22,818,643
Consumer deposits	3,551,068	3,551,068
Unspent Conditional Grants	10,552,492	10,552,492
	296,775,090	296,775,090

2017

Financial assets

	At fair value	At amortised cost	Total
Other Financial assets	382,467	-	382,467
Trade and other receivables from exchange transactions	-	3,779,019	3,779,019
Other receivables from non-exchange transactions	-	1,540,006	1,540,006
Consumer debtors	-	37,276,663	37,276,663
Cash and cash equivalents	1,499,578	-	1,499,578
	1,882,045	42,595,688	44,477,733

Financial liabilities

	At amortised cost	Total
Operating Lease Liability	5,275	5,275
Other financial liabilities	7,296,891	7,296,891
Trade and other payables from exchange transactions	201,987,773	201,987,773
VAT Payable	6,376,670	6,376,670
Consumer deposits	3,510,222	3,510,222
Unspent Conditional Grants	4,126,488	4,126,488
	223,303,319	223,303,319

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43. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	241,372,638	203,335,833
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Total capital commitments

Already contracted for but not provided for	241,372,638	203,335,833
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1,662,300	2,663,207
- in second to fifth year inclusive	1,908,520	-
	3,570,820	2,663,207

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

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44. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk, but the exposure is limited to the Municipality's management thereof.

Due to largely "non-trading nature" of activities and the way to which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRSs mainly apply. Generally, financial assets and liabilities are generated by day to day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The Internal audit is responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body monitors the effectiveness of internal audit function. The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality management of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates to ensure that cash flow requirements are met.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	10,000,000	-	-	-
Trade and other payables	288,394,145	-	-	-
At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7,296,891	-	-	-
Trade and other payables	216,006,428	-	-	-

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44. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Investments	465,325	382,467
Receivables from non xchange transactions	2,045,006	1,540,006
Receivables from exchange transactions	7,658,345	3,779,019
Cash and bank balances	3,443,923	1,499,578
Consumer debtors	41,692,978	37,726,663

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. To decrease interest rate risk exposure, investments is mostly done on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	11.50 %	41,692,978	-	-	-	-
Other financial assets	- %	465,325	-	-	-	-
Other financial liabilities	- %	10,000,000	-	-	-	-

Mkhondo Local Municipality

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44. Risk management (continued)

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

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45. Contingencies

Contingencies- 2018

FINANCIAL YEAR: 2017/2018

NAME OF CLAIMANT	SUMMARY OF CASE AND PROGRESS	RESPONSIBLE LAW FIRM OR APPOINTED FIRM	CASE NUMBER	AMOUNT CLAIMED	COMMENTS
Bareki Management Consulting Services	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done.	TMN Kgomo & Associates Inc.	19148/2011	Claim A R 761 383.10 Claim B R 1 169 904.48	Pleadings have been closed and pre-trial conference to be held our attorneys have written a letter to plaintiffs' attorney to furnish us with three possible dates on which a pre-trial can be held.
Owethu Mkhondo Trading CC	The Plaintiff is suing the Municipality for R 21 277 570.63 for alleged breach of contract	TNM Kgomo & Associates Attorneys	46047/2014	R 21 277 570.63	The matter is trial ready, Pleadings are closed
Pamoja Technologies	The plaintiff is suing the Municipality the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TNM Kgomo Incorporated Attorneys	15597/11	R 1 396 370.67	The Plaintiff's Attorney informed our Attorney that the file was not assigned to anyone after Mr Dingiswayo left, and they shall take instruction from client and revert. Our attorney has further taken an initiative to uplift the court file however same could not be located at court. Attorney is following the matter up with both attorneys and court. No further pleadings have been received herein
Busamasi Investments CC	A claim was instituted by the plaintiff following an alleged breach of contract by the municipality.	TNM Kgomo Incorporated	47483/2011	R 558 842.62	The matter is in active, our Attorneys contacted the Plaintiff's Attorney and they indicated their intention to have the matter withdrawn. We await plaintiff's notice of withdrawal.

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45. Contingencies (continued)

Rethuseng Live Line Services CC	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R 3 249 043.64 from the second defendant.	TNM Kgomo Incorporated Attorneys.	40779/2014	R 3 249 043.64	All pleadings have been served and parties discovered, a meeting was convened on the 24 th January 2018 the firm has appointed to ascertain the actual work done by Rethuseng in order to curtail issues in court.
LP De Beer	Mr Lourens has served Summons against the Municipality stating that he has incurred damages due to a motor vehicle accident, he alleges that the accident was as the result of poor maintenance of storm water drain	Mohlala Attorneys	20751/2015	R470 000.00	The Council is waiting for the Plaintiff to enrol the application on the opposed roll for same to be argued
Bicacon (Pty) vs Mkhondo Municipality	The Municipality received summons from Bicacon (Pty) Ltd seeking relief, as the plaintiffs are claiming that the Mkhondo Local Municipality unlawfully terminated their contract, the plaintiffs were appointed to provide Engineering Consulting Services for the construction of Driefontein to Iswepe and Hartebeesfontein Water Bulkline by Mega, which ceded their rights to the Municipality.	Mohlala Attorneys	87155/15	R 5319140.62	The Counsel appointed for this matter is currently preparing a bill of costs for taxation purposes.

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45. Contingencies (continued)

Olivier AJ & Olivier J.F.B	The Municipality received an urgent application from Efieland Nursery Primary School. Ordering the Municipality to consider the application within 5 days requesting costs on the papers we are cited as third respondent/Applicant, as the first respondent is now Methodist and second respondent /Applicant Elfieland .The applicants have lodged an appeal against order that was made on the 15 th of May 2018and the appeal process is still going on.	Mohlala Attorneys	44205/2018	None(Specific performance)	The application was dismissed with costs.
Olivier AJ & Olivier J.F.B	The Municipality received notice and summons claiming the R736 975.99 for services rendered as per SLA.	MT SILINDA	529/2016	R736 975.99	The Municipality appointed an Attorney who has since pursued the matter. The Municipality attorney is have prepared settlement for the actual service that was done which is lessor than the claim amount and we are awaiting for attorneys response
EPH Security	The Municipality received notice and summons claiming the R5 277 870.57 million for breach of Contract.	Mthunzi Madonsela Attorneys	331/2017	R5 277 870.57	The pleadings in this matter are closed and presently at the stage of discovering the documents intended to be used during trial.
Madubula Joseph Solly	The Municipality received notice and summons claiming the R2.2 million to compensate the claimant for loss suffered as the result after his contract has been terminated	Mthunzi Madonsela Attorneys	1241/2017	R2.2 Million	The pleadings in this matter are closed. Currently the Plaintiff move the matter from the Middleburg Circuit High Court to Mbombela Circuit High court we conceded to the matter being moved cause it will minimise correspondent costs.

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45. Contingencies (continued)

Mkhondo Municipality vs Ideal Prepaid	The Municipality sent a letter to ideal Prepaid stipulating the Municipality's intentions to rescind its decision of entering into a contract with them. We have since requested our attorney to make an application to Review the application.	Mthunzi Madonsela Attorneys	2017	Reviewing Contract	Interlocutory Application is being made at Court to compel the Respondent/ plaintiff to discover after it has failed to comply with the Notice in terms of Rule 35 (14)
Jacobs MME Bredenham	The Municipality received summons claiming R8568.90.Plaintiff hit the pothole and his motor vehicle got damages	Mthunzi Madonsela Attorneys	230/2017	R8568.90	The plaintiff has applied for joinder parties to the pleadings, joining the Department of Public Works, which application have been consented to.
Mr R.J. Lewis	The Municipality requested the assistance of Mthunzi Madonsela Attorneys pertaining a matter whereby Mr Lewis was charged with Fraud and suspended, the judgement was given by the presiding officer for Mr Lewis to be reinstated, and the Municipality then requested Mthunzi Madonsela for a legal opinion with regard to setting aside the decision of the presiding officer.	Mthunzi Madonsela Attorneys	2018	(Reviewing Outcome of chairperson)	The council appointed managed to draft a legal opinion and the matter is still pending as a decision has not be taken .The papers for Application for Review has been prepared.
Ethiopians Tuckshop Owners	The claimant instituted an action against the Municipality ito section 20 in the Equality Court,alleging that the Municipality is discriminating against them by cutting off their electricity	Mthunzi Madonsela Attorneys	1/2017	Specific performance and R20 000 to each shop owner	The matter is at the trial stage, One Witness has testified for the Plaintiffs and matter was adjourned for the 06/09/2018.
Mnisi Solomon Jabulani Gomu	The Mkhondo Local Municipality received summons from the Plaintiff alleging that he had been arrested and detained by the traffic officers of the Mkhondo Local Municipality, he is therefore claiming an amount of R 850 000.00	Mohlala Attorneys	8550/2017	R850 000.00	The Defendant's special plea and plea has been served and filed accordingly and the matter is currently at discovery stage

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45. Contingencies (continued)

Vorster Andries Wilhelmus Jacobus	The Plaintiff is suing the Mkhondo Local Municipality in the amount of R 25 000.00 for a once off gratuity equal to three months pensionable salary, the Plaintiff was a councillor at the Municipality.	Mohlala Attorneys	367/2015	R25 000.00	The Plaintiff's attorney have since withdrawn from the matter
Dawson and Dobson (Pty) Ltd vs Mkhondo Local Municipality	The Mkhondo Local Municipality received summons from the Plaintiff alleging that we breached the verbal agreement, he is therefore claiming an amount of R 253 461.90 and R4 442.551.39 and costs	Mohlala Attorneys	1755/2018	R 253 461.90 and R4 442.551.39	We have since consulted with our attorney on record. The Notice of R7 has been filed and awaiting for response.
Ideal Prepaid vs Mkhondo Municipality	The Plaintiff is suing the Mkhondo Local Municipality in the amount of R 32 089 340.00 for damages emanating from breach of Contract	Mthunzi Madonsela Attorneys	732/2018	R32 089 340.00	The plaintiff alleges that it has suffered Patrimonial loss as the result of our repudiation of contract. Our attorney filed Notice of intention to Defend.

Contingencies as at 30 June 2017

Name of Claimant	Summary of case	Responsible Law Firm	Amount Claimed	Comments
Olivier AJ/Olivier J.F.B/Methodist Church of Southern Africa/Eilfiland Nursery school and day care centre vs Mkhondo Local Municipality	The Municipality is cited as the 3 rd respondent. The applicant is suing the 3 rd respondent for dereliction of duty for failure to close a crèche operating at portion 4 Erf 15 at 15 West end street, Piet Retief which is zoned as a residential area instead of a business area.	Mohlala Attorneys	R380 000	Awaiting notice of set down of the Application on the opposed roll
Mnisi Solomon Jabulani Gomu vs Mkhondo Local Municipality	Plaintiff is suing for wrongful arrest	Mohlala Attorneys	R850,000	Finalising notice of exception to be served on the Applicant
Vorster Andries Wilhelmus vs Mkhondo Municipality	Plaintiff is suing for a once off gratuity equal to 3 months' pensionable salary	Mohlala Attorneys	R25,000	Preparing the Defendant discovery affidavit to be served on the Plaintiff

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45. Contingencies (continued)

Bicacon Pty Ltd vs Mkhondo Municipality	Plaintiff is suing for breach of contract	Mohlala Attorneys	R5,772,853	Currently preparing a bill of costs for taxation purposes
Bicacon Pty Ltd vs Mkhondo Municipality	Plaintiff is suing for breach of contract	Mohlala Attorneys	R5,319,140	Application for rescission of judgement is being opposed
Lorens Peter De Beer vs Mkhondo Municipality	Plaintiff suing the Municipality for damages on his motor vehicle because of poor storm water drainage.	Mohlala Attorneys	R470,000	Waiting for the Plaintiff to enrol the Application on the Opposed roll for matter to be argued.
Phada Trading and Projects vs Mkhondo Municipality	Plaintiff suing for amount outstanding after lapse of Level service agreement	MT Silinda	R736,976	Matter defended in court
Bareki Manageent Consulting Pty Ltd	The plaintiff is claiming damages for work done. They allege that they compiled a supply chain management system and they were not paid for the work done.	TMN Kgomo & Associates Inc.	Claim A R 761 383.10 Claim B R 1 169 904.48	Applicant Counsel to provide pre-trial conference date
Owethu Mkhondo Trading CC vs Mkhondo Municipality	he Plaintiff is suing the Municipality for R21 277 570.63 for alleged breach of contract	TMN Kgomo & Associates Inc.	R 21 277 570.63	The matter is ready for trial
Pamoja Technologies vs Mkhondo Municipality	The plaintiff is suing the Municipality the sum of R 1 396 370.67 for alleged breach of contract by the Municipality.	TMN Kgomo & Associates Inc.	R 1 396 370.67	Plaintiff attorneys to furnish further instructions. File currently not assigned
Urban Economic Development	Plaintiff filed a claim against the municipality for services rendered at the request of the municipality. The claim follows the request by the municipality to incorporate Sector plans into the IDP.	TMN Kgomo & Associates Inc.	R 127 082.46	The matter has since been withdrawn
Busamasi Investments CC.	A claim was instituted by the plaintiff following an alleged breach of contract by the municipality.	TMN Kgomo & Associates Inc.	R 2 465 000.00	Matter ineffective. Plaintiff indicated intention to withdraw matter.
Rethuseng Live Line Services CC	Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant	TMN Kgomo & Associates Inc.	R 3 249 043	Agreed to appoint a firm to ascertain the amount of work done. Awaiting response from Plaintiff.

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46. Related parties

Relationships

Accounting Officer - Mr. M. Kunene
Mr. M. Thabede
Mr. V. Khumalo
Mr. L. Motloung
Mr. B. Maseko
Development Bank of South Africa
National Treasury

Refer to accounting officer's report note
Section 56 Manager
Section 56 Manager
Section 56 Manager
Section 56 Manager
State Controlled entity
State Controlled entity

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46. Related parties (continued)

Related party balances

Loan accounts - Owing (to) by related parties

Development Bank of South Africa	-	(743,123)
Local Government Sector education and training authority	(10,552,492)	(126,488)
TWK Agriculture	(10,000,000)	(6,553,768)

The amounts owed to National Treasury are in respect of grants allocated to the Municipality and were unspent at the reporting date. The amounts owed by councillors are in relation to services rendered by the Municipality in the normal course of its business and these services were made on terms equivalent to any other consumer debtor on an arm's length. The TWK amount is a short term loan which is due and payable by July 2018. The amount will be subject to interest charges if the Municipality fails to pay interest by the due date, otherwise it is interest free up to the agreed due date. The amount is secured over certain plantations.

Councillors Salaries Disclosure - 30 June 2018

Full Names	Annual Remuneration	Cellphone Allowance	Contribution to Pension & Medical Aid	Housing Allowance	Travel Allowance	Grand Total
Cllr. D Thwala	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. S Methula	199,071	24,000	-	8,054	57,120	288,246
Cllr. S Mathebula	185,509	24,000	13,321	8,054	57,120	288,005
Cllr. T Khumalo	475,759	24,000	-	8,054	142,128	649,941
Cllr. B Vilakazi	187,049	24,000	11,787	8,054	57,120	288,010
Cllr. T Nkosi	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. M Ntuli	227,654	24,000	29,478	8,054	73,304	362,491
Cllr. Z Mnisi	417,898	24,000	56,795	8,054	142,128	648,875
Cllr. K Masondo	214,465	24,000	41,915	8,054	-	288,435
Cllr. M Yende	422,803	24,000	52,046	8,054	142,128	649,031
Cllr. J Brussow	159,578	24,000	39,291	8,054	57,120	288,043
Cllr. G Nkosi	429,343	24,000	77,502	8,054	151,602	690,502
Cllr. T Hlatshwayo	247,317	24,000	16,709	-	-	288,026
Cllr. D Ntshakala	247,317	24,000	16,709	-	-	288,026
Cllr. C Mkhwanazi	247,317	24,000	16,709	-	-	288,026
Cllr. F Mthethwa	247,317	24,000	16,709	-	-	288,026
Cllr. T Manana	247,317	24,000	16,709	-	-	288,026
Cllr. N Zulu	247,317	24,000	16,709	-	-	288,026
Cllr. S Mahlobo	247,317	24,000	16,709	-	-	288,026
Cllr. B Mkhwanazi	240,260	24,000	23,640	-	-	287,900
Cllr. S Bophela	247,317	24,000	16,709	-	-	288,026
Cllr. R Wilson	247,318	24,000	16,709	-	-	288,027
Cllr. M Ngwenya	317,330	24,000	21,443	-	-	362,773
Cllr. B Khumalo	232,474	24,000	31,575	-	-	288,048
Cllr. B Nkosi	232,523	24,000	31,239	-	-	287,762
Cllr. S Yende	247,317	24,000	16,709	-	-	288,026
Cllr. T Nkosi	233,942	24,000	30,104	-	-	288,046
Cllr. P Thabede	247,317	24,000	16,709	-	-	288,026
Cllr. J Makhathini	317,330	24,000	21,443	-	-	362,773
Cllr. S Thwala	545,224	24,000	80,243	-	-	649,467
Cllr. T Zulu	229,317	24,000	34,736	-	-	288,053
Cllr. D Ngobese	317,330	24,000	21,443	-	-	362,773
Cllr. R Hlatshwayo	303,423	24,000	35,371	-	-	362,794
Cllr. T Mncube	264,360	24,000	-	-	-	288,360
Cllr. V Motha	682,642	24,000	152,428	-	-	859,070
Cllr. T Mafuyeka	241,615	24,000	15,767	8,054	73,304	362,740
Cllr. B Mchunu	247,317	24,000	16,709	-	-	288,026
Cllr. S Mwelase	247,317	24,000	16,709	-	-	288,026

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46. Related parties (continued)

Total	10,775,251	912,000	1,070,318	104,702	1,099,682	13,961,957
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Councillors Salaries- 30 June 2017

Full Names	Annual Remuneration	Cellphone allowance	Housing Allowance	Contribution to Pension and Medical Aid	Travelling Allowance	Grand Total
Cllr. D Thwala	186,449	20,868	8,054	26,365	77,625	319,362
Cllr. B Mtshali	23,479	3,478	8,420	7,456	31,584	74,417
Cllr. P Langa	20,495	3,478	8,208	4,408	25,267	61,857
Cllr. S Methula	165,686	20,868	8,054	-	59,463	254,071
Cllr. S Mathebula	145,704	20,868	8,054	19,605	58,817	253,048
Cllr. S Kambule	17,523	3,478	1,342	2,396	-	24,739
Cllr. N Ndhlovu	86,883	5,217	-	18,837	34,577	145,514
Cllr. B Vilakazi	145,448	20,868	8,054	19,856	59,167	253,393
Cllr. V Nkosi	15,398	3,478	8,417	6,117	23,688	57,097
Cllr. N Nhlengeth	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. S Mtshali	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. A Thwala	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Nkosi	181,383	20,868	8,054	21,797	65,369	297,472
Cllr. S Kunene	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. N Masuku	12,845	3,478	1,342	-	9,520	27,186
Cllr. M Ntuli	186,321	20,868	8,054	24,995	68,489	308,727
Cllr. L Mkhwanaz	16,855	3,478	1,342	-	12,217	33,893
Cllr. S Sangweni	10,079	3,478	1,342	1,775	9,520	26,195
Cllr. K Masondo	174,872	20,868	8,054	47,592	1,155	252,543
Cllr. M Nkosi	12,182	3,478	1,342	2,303	12,217	31,523
Cllr. M Phakathi	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. V Masuku	17,523	3,478	1,342	2,396	-	24,739
Cllr. J Brussow	122,443	20,868	8,054	42,925	57,120	251,411
Cllr. H Mncube	12,845	3,478	1,342	-	9,520	27,186
Cllr. T Nhleko	12,845	3,478	1,342	-	9,520	27,186
Cllr. B Mabuza	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. J Phakathi	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. L Bosch	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. S Nhleko	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Hlatshway	180,699	19,129	-	25,008	587	225,423
Cllr. D Ntshakala	180,699	19,129	-	25,008	2,149	226,985
Cllr. C Mkhwanaz	179,522	19,129	-	26,163	930	225,744
Cllr. F Mthethwa	179,522	19,129	-	26,163	920	225,735
Cllr. T Manana	180,699	19,129	-	25,008	1,906	226,741
Cllr. N Zulu	179,522	19,129	-	26,163	1,698	226,513
Cllr. S Mahlobo	180,699	19,129	-	25,008	970	225,806
Cllr. B Mkhwanaz	173,627	19,129	671	26,610	6,272	226,309
Cllr. S Bophela	180,699	19,129	-	25,008	920	225,756
Cllr. R Wilson	180,699	19,129	-	25,008	2,437	227,273
Cllr. M Ngwenya	219,376	19,129	-	27,872	2,271	268,647
Cllr. B Khumalo	169,906	19,129	-	35,829	735	225,599
Cllr. B Nkosi	178,346	19,129	-	27,318	934	225,728
Cllr. S Yende	180,699	19,129	-	25,008	1,504	226,340
Cllr. T Nkosi	178,566	19,129	-	28,310	920	226,925
Cllr. S Mntshali	165,419	17,390	-	21,196	5,570	209,576
Cllr. P Thabede	180,699	19,129	-	25,008	920	225,756
Cllr. J Makhathini	224,331	19,129	-	27,872	920	272,252
Cllr. B Shabangu	12,845	3,478	1,342	-	9,520	27,186
Cllr. T Zulu	167,162	19,129	-	39,681	2,202	228,174
Cllr. D Ngobese	224,340	19,129	-	27,872	3,256	274,596
Cllr. R Hlatshway	219,946	19,129	-	32,276.00	920.00	272,270.00

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46. Related parties (continued)						
Cllr. T Mncube	206,188	19,129	-	-	3,052	228,370
Cllr. C Bios	9,243	3,478	1,342	1,775	9,520	25,359
Cllr. T Mafuyeka	181,383	20,868	8,054	21,797	68,773	300,876
Cllr. B Mchunu	136,087	13,912	-	17,558	-	167,556
Cllr. Z Mthimkhuli	14,997	3,478	8,417	5,852	23,688	56,432
Cllr. C Mtshali	10,079	3,478	1,342	1,775	9,520	26,195
Cllr. T Khumalo	394,419	20,868	7,780	-	152,716	575,783
Cllr. Z Mnisi	342,592	20,868	8,054	50,749	188,551	610,814
Cllr. M Yende	342,879	20,868	8,054	50,791	182,110	604,703
Cllr. G Nkosi	285,926	20,868	8,054	51,129	166,031	532,008
Cllr. S Thwala	420,755	18,655	-	86,253	64,761	590,423
Cllr. V Motha	549,881	18,655	-	123,188	-	691,723
Total	8,462,896	830,294	165,401	1,249,054	1,627,698	12,335,366

47. Unauthorised expenditure

Opening balance	454,837,409	399,737,398
Unauthorised expenditure - current period	120,632,014	55,100,011
Less amounts condoned	(454,837,409)	-
	120,632,014	454,837,409

The Council MPAC which sat on the 30th of August 2018, wrote off unauthorised expenditure amounting to R454,837,409 in respect of prior years expenditure.

48. Fruitless and wasteful expenditure

Opening balance	41,576,354	32,753,379
Penalties, Interest and other	(10,899,571)	8,822,975
Less amounts condoned	(41,352,892)	-
	(10,676,109)	41,576,354

The Council MPAC which sat on the 30th of August 2018, wrote off Fruitless and Wasteful expenditure to the amount of R41,576,354 related to prior years expenditures.

49. Irregular expenditure

Opening balance	376,577,809	289,833,327
Add: Irregular Expenditure - current year	16,897,228	86,744,482
Less: Amounts condoned	(376,577,809)	-
	16,897,228	376,577,809

Analysis of expenditure awaiting condonation per age classification

Current year	16,897,228	86,744,482
Prior years	-	289,833,327
	16,897,228	376,577,809

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50. Additional disclosure in terms of Municipal Finance Management Act

Material losses

2018

Electricity losses for the current year amounted to 37% i.e. R44,239,122. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 31% i.e. R1,271,460. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

2017

Electricity losses for the current year amounted to 20% i.e. R22,591,918. These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 6% i.e. R129 203.93. Fifty six percent of these losses can be accounted for in terms of the National Guidelines for non revenue water. 27% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

Audit fees

Opening balance	112,951	(499,521)
Current year subscription / fee	3,955,239	3,203,612
Current year VAT raised on invoices	532,295	454,069
Opening balance correction	-	534,082
	4,600,485	3,692,242

PAYE and UIF

Opening balance	-	1,697,672
Amount paid - current year	25,183,385	24,275,727
Amount paid - previous years	(23,095,030)	(25,973,399)
	2,088,355	-

Pension and Medical Aid Deductions

Opening balance	-	1,978,773
Current year subscription / fee	37,391,773	34,868,192
Amount paid - current year	(34,225,565)	(36,846,965)
	3,166,208	-

VAT

VAT receivable	(14,525,255)	-
VAT payable	37,343,898	6,376,670
	22,818,643	6,376,670

VAT output payables and VAT input receivables are shown in note 16.

All VAT returns have been submitted by the due date throughout the year.

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V. M. Motha	(2,667)	-	(2,667)
Cllr. Z.J. Mnisi	2,155	-	2,155
Cllr. M.D. Ntuli	4,373	-	4,373
Cllr. D.M. Ntshakala	3,319	-	3,319
Cllr. F.C Mthetwa	2,476	-	2,476
Cllr. N.N. Zulu	11,924	-	11,924
Cllr. S.C. Mahobo	5,542	-	5,542
Cllr. B.M. Khumalo	101,638	-	101,638
Cllr. S.Z Yende	1,814	-	1,814
Cllr. T.B. Nkosi	276	-	276
Cllr. S.E. Mntshali	2,882	-	2,882
Cllr. J.P. Makhathini	8,648	-	8,648
Cllr. D.L. Ngobese	2,907	-	2,907
	145,287	-	145,287

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. V.M Motha	592	-	592
Cllr. Z. Mnisi	5,920	-	5,920
Cllr. M.D. Mnisi	1,799	-	1,799
Cllr. D.M. Ntshakala	2,277	-	2,277
Cllr. F.C. Mthetwa	1,303	-	1,303
Cllr. N.N. Zulu	10,152	-	10,152
Cllr. S.C. Mahobo	3,066	-	3,066
Cllr. B.M. Khumalo	82,876	-	82,876
Cllr. S.Z Yende	806	-	806
Cllr. T.B. Nkosi	176	-	176
Cllr. S.E. Mntshali	3,517	-	3,517
Cllr. J.P. Makhathini	3,431	-	3,431
Cllr. D.L. Ngobese	1,851	-	1,851
	117,766	-	117,766

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51. Prior period errors

Certain compartments of plantations were incorrectly valued as at 30 June 2017. A new valuation was performed on the plantations that resulted in the value of the plantations increasing from R58,873,012 as previously reported to R59,684,288. Prior year results have been reinstated to correct the error.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Biological assets	-	811,276
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Statement of financial performance

Fair value adjustments on biological assets	-	811,276
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52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

	Note	As previously reported	Correction of error	Restated
Biological assets	8	58,873,012	811,276	59,684,288
Property Plant and Equipment		1,381,583,488	255,794,598	1,637,378,086
		1,440,456,500	256,605,874	1,697,062,374

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Fair value adjustments	38	(13,381,693)	811,276	-	(12,570,417)
Contracted services	36	-	-	(37,340,336)	(37,340,336)
General expenditure	37	(97,271,596)	-	37,340,336	(59,931,260)
Reinstatement of prior year errors		-	255,794,596	-	255,794,596
Surplus for the year		(110,653,289)	256,605,872	-	145,952,583

Cash flow statement

2017

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53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

A register of deviations is kept at the Municipal Manager's office and is available for inspection.

No	Service Provider	Service description	Contract price	Procurement date	Justification or reason for the deviation
1	EMALANGENI TECHNOLOGIES	UPS service for the sever room.	R 34,916.52	28/07/2017	The Municipal Policy on Supply Chain Management states that all requirements above R30 000(Vat Incl.) must be advertised on the notice board for at least seven (7) day. The unit did not observe the 7 days.
2	KAINOS INVESTMENTS (PTY) LTD	Supply and Install Preprogramed Elster A 1700 multifunction KWH & KVA max Meter with GPRS/3G modem.	R 199272.00	13/07/2017	Due to the emergency nature of this request to prevent the revenue loss of electricity by speedily procuring and installing the bulk meters on the identified major customers around town.

2017 Deviations.

NO.	SERVICE PROVIDER	SERVICE DESCRIPTION	CONTRACT PRICE	PROCUREMENT DATE	JUSTIFICATION REASON FOR DEVIATION
1	STUCKY MOTORS	SERVICE OF MERCEDES BENZ DNC 871 MP	R 8,543.05	27/01/2017	Only one Mercedes Benz accredited dealer in Mkhondo. MFMA SCM Regulation 36(1)(ii)(v)
2	STUCKY MOTORS	Service of a Mercedes Benz, FLR 959 MP	R 10,054.40	08/02/2017	Only one Mercedes Benz accredited dealer in Mkhondo. MFMA SCM Regulation 36 (1)(ii)(v)

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53. Deviation from supply chain management regulations (continued)

3	TWK TOYOTA PIET RETIEF	Repair of Mahindra Bakkie, FZJ 579 MP	R 5,402.70	23/02/2017	TWK only accredited Mahindra dealer in Piet Retief. Deviation from normal SCM procurement procedures in terms of SCM Regulations 36 (1)(i)(ii) and (v) and in terms of SCM policy
4	Sorenso Trading	Repair of Colt Bakkie, DGY 652 MP	R 6,463.75	23/02/2017	Vehicle breakdown, Impractical to send the vehicle to multiple service providers for inspection (strip) and quotation. MFMA SCM Regulation 36 (1)(i)(v)
5	SMITH TPT	23981	3941.4	23/02/2017	Only one Service provider could strip, quote and provide the service. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (1)(v)
6	Media 24	Advertising vacancy on City Press	R 27,360.00	09/02/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
7	Ermelo MAN Truck	Servicing of MAN Truck, DYP 515 MP	R 11,247.00	22/03/2017	Ermelo MAN Truck is the only accredited Service provider around, work requires strip and quote. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (II)(v)
8	Botex Panel beaters	Third Party Vehicle Repairs	R 20,520.00	10/04/2017	Works requires strip and quote. Impractical to send the vehicle to multiple service providers for stripping and quotation. MFMA SCM Regulation 36 (II)(v)
9	Times Media	Tender Advert	R 10,998.72	11/04/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
10	Times Media	Advert Vacancy	R 25,786.80	24/04/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
11	TWK Toyota	Repairs HLX 427 MP	R 2,527.42	10/05/2017	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
12	TWK Toyota	Water Pump Repairs FZJ579MP	R 6,752.60	31/05/2017	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
13	Times Media	Tender Advert	R 10,998.72	06/06/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)
14	Media 24	Advert: Vacancy	R 57,456.00	12/05/2017	Emergency. MFMA SCM Regulation 36 (1) and (v)

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53. Deviation from supply chain management regulations (continued)

15	Media 24	Advert: Vacancy Corporate	R 45,964.80	14/06/2017	Emergency and impractical to get more than one quote since there are few service providers with a Sunday circulation. MFMA SCM Regulation 36 (1) and (v)
16	TWK TOYOTA	FZJ579MP	R 12,471.08	13/06/2016	Only one Toyota accredited dealer in Mkhondo and it was imprudent to send the vehicle to multiple service providers for inspection and quotation. MFMA SCM Regulation 36(1)(ii)(v)
		TOTAL AMOUNT	R 266,488.44		